

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05
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R 141548Z APR 78
FM AMEMBASSY DUBLIN
TO SECSTATE WASHDC 0427
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE

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USEEC

E.O. 11652: N/A
TAGS: BEXP, ENRG, ECON, EI
SUBJECT: HYDROCARBON EXPLORATION: 1978 MARKS RECORD
LEVEL OF OFFSHORE DRILLING

1. SUMMARY: 1978 PROMISES TO BE A BANNER YEAR FOR
OFFSHORE HYDROCARBON EXPLORATION IN IRELAND WITH
EXPECTATIONS FOR AS MANY AS 18 DRILLINGS. GAS FROM THE
ONLY COMMERCIALY EXPLOITABLE STRIKE TO DATE WILL FLOW
ASHORE LATER THIS YEAR FROM THE KINSALE FIELD. THE
EXPLORATION EFFORT HAS GIVEN A BOOST TO LOCAL FIRMS
CAPABLE OF RENDERING SUPPORT SERVICES, AND COMMERCIAL
OPPORTUNITIES FOR US SUPPLIERS EXIST. END SUMMARY.

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2. OIL INDUSTRY SOURCES INDICATE THAT AS MANY
AS 18 WELLS MAY BE DRILLED IN IRISH TERRITORY -- ALL
OF THEM OFFSHORE -- IN 1978, AT A COST OF BETWEEN 80-100
MILLION POUNDS. MAIN INTEREST IS EXPECTED TO BE
IN THE PORCUPINE TROUGH OFF THE WEST COAST,
WITH NINE POSSIBLE WELLS; FOLLOWED BY THE FASTNET

TROUGH IN THE SOUTH WITH FIVE; TWO OFF DONEGAL AND ONE EACH POSSIBLE IN DUBLIN BAY AND THE SOUTH CELTIC SEA. COMPANY ACTIVITY SEEMS LIKELY TO BREAK DOWN AS FOLLOWS: ESSO (2), ELF (2), SHELL/AGIP (2), ARAN/BP (2), DEMINEX (2), TEXACO (2), AMOCO (2), CHEVRON/ICI (2), MARATHON (1) AND PHILIPS (1). GOVERNMENT EXPERTS ARE A BIT MORE CONSERVATIVE IN THEIR ESTIMATES; DEPARTMENT OF INDUSTRY, COMMERCE AND ENERGY EXPERTS FORECAST 16 PROBABLE DRILLINGS, WITH A FAIR CHANCE FOR A SEVENTEENTH. FOUR COMPANIES HAVE ALREADY COMMENCED DRILLING THIS YEAR -- MARATHON, DEMINEX, SHELL AND ELF.

3. THIS WILL BE THE MOST ACTIVE YEAR EVER FOR HYDROCARBON EXPLORATION HERE, WITH DRILLING ACTIVITY MATCHING THE TOTAL FOR 1975-77. SOME LOCAL OBSERVERS HAVE DUBBED THIS IRELAND'S MAKE OR BREAK YEAR, MEANING THAT IF THE RELATIVELY EXTENSIVE 1978 PROGRAM DOES NOT BREAK THE LONG STRING OF NON-PRODUCTIVE HOLES INTEREST IN EXPLORATION IN IRELAND WILL WANE. GOVERNMENT SPOKESMEN DERIDE THE "MAKE OR BREAK" LABEL, BUT PRIVATELY CONCEDE THAT THE LEVEL OF THIS YEAR'S ACTIVITY WILL GREATLY INCREASE KNOWLEDGE ABOUT PROSPECTS IN AREAS WHICH HAVE BEEN REGARDED AS AMONG IRELAND'S MOST PROMISING -- IN PARTICULAR FASTNET TROUGH. BUT COMPANIES ARE ALSO DRILLING IN NEW AREAS, SUCH AS THE DONEGAL BASIN, AND PRESSING SOME LIMITED OFFICIAL USE

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TECHNOLOGICAL FRONTIERS AS WELL BY DRILLING DEEPER AND FURTHER FROM SHORE THAN ANY WELLS PREVIOUSLY ATTEMPTED IN THIS PART OF THE WORLD. SHELL, FOR EXAMPLE, HAS ALREADY SPUDDED IN ITS FIRST EXPLORATION WELL OF THE SEASON ON THE PORCUPINE BANK AT A WATER DEPTH OF 2,600 FEET, ABOUT 150 MILES FROM ITS FOYNES, CO. LIMERICK BASE. THE ADDED DIFFICULTIES AND COSTS INVOLVED IN EXPLORATION AND DEVELOPMENT AT THIS DEPTH AND DISTANCE FROM SHORE IMPLY THAT EXPLOITATION IN THE IMMEDIATE FUTURE WOULD ONLY BE COMMERCIALY FEASIBLE FOR A RELATIVELY LARGE FIELD.

4. TO DATE ONLY ONE COMMERCIALY EXPLOITABLE HYDROCARBON FIND HAS BEEN MADE, THE MARATHON GAS STRIKE 27 MILES OFFSHORE FROM KINSALE, CO. CORK. GAS IS EXPECTED TO BE FLOWING ASHORE IN THE SECOND HALF OF THIS YEAR, WELL AHEAD OF THE APRIL 1979 DATE CALLED FOR BY SUPPLY CONTRACTS. THE FIELD IS EXPECTED TO PRODUCE APPROXIMATELY 124 MILLION CUBIC FEET OF GAS PER DAY OVER A 20 YEAR PERIOD. CURRENT GOVERNMENT PLANS ALLOT 53 PERCENT OF THE GAS TO THE ELECTRICITY SUPPLY BOARD TO PRODUCE ELECTRIC POWER, 44 PERCENT TO NITRIGIN

EIREANN TEORANTA (NET) FOR NITROGENOUS FERTILIZERS AND 3 PERCENT TO THE CORK GAS COMPANY. IRISH OFFICIALS ADMIT THAT THE ALLOCATION OF NATURAL GAS FOR ELECTRICITY GENERATION IS NOT AN OPTIMAL USE, AND INDICATE THAT MORE EFFICIENT ALTERNATIVES ARE BEING ACTIVELY SOUGHT. ONE MOTIVATION FOR AT LEAST TEMPORARILY ALLOCATING THE GAS TO ELECTRICITY GENERATION IS TO PROVIDE A MEASURE OF SHORT-TERM BALANCE OF PAYMENTS RELIEF. ABOUT 80 PERCENT OF IRELAND'S ENERGY SUPPLY AND 67 PERCENT OF ITS ELECTRICITY ARE PROVIDED BY OIL, ALL OF WHICH IS IMPORTED AND THE 350 MILLION POUND COST OF THESE IMPORTS IN 1977 CONTRIBUTED SIGNIFICANTLY TO THE TRADE DEFICIT OF 566 MILLION POUNDS. THE STRONGLY STIMULATIVE ECONOMIC

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PLAN TO BE IN EFFECT THROUGH 1980 IS EXPECTED TO PUSH THE CURRENT ACCOUNT DEFICIT UP FROM ABOUT THREE PERCENT OF GNP TO AS HIGH AS SIX PERCENT, SO INDIGENOUS ENERGY RESOURCES ARE BEING DEVELOPED TO THE MAXIMUM EXTENT POSSIBLE. IN ADDITION, OFFICIALS BELIEVE THEY WILL HAVE MORE SUCCESS IN ATTRACTING OVERSEAS INVESTORS INTERESTED IN INDUSTRIAL USES FOR THE GAS IF IT IS ACTUALLY ON STREAM.

5. THE GOI IS ENCOURAGING THE INVOLVEMENT OF LOCAL FIRMS IN OFFSHORE EXPLORATION SUPPORT, AND ANTICIPATES THAT IRISH BUSINESS WILL SHARE ABOUT 26 PERCENT OF THIS YEAR'S EXPENDITURES -- A SHARE THAT WOULD APPROACH 20-25 MILLION POUNDS. THE IRISH OFFSHORE SERVICES ASSOCIATION HAS GROWN TO ABOUT 80 LIMITED OFFICIAL USE

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CORPORATE MEMBERS, COVERING THE SPECTRUM FROM FINANCIAL SERVICES TO ENGINEERING, CATERING TO CHANDLERY, DRILLING SUPPLIES TO HELICOPTERS. ALTHOUGH DWARFED BY THE NORTH SEA FIELDS, OFFSHORE ACTIVITIES HERE DO OFFER SIGNIFICANT OPPORTUNITIES TO US SUPPLIERS OF A WIDE VARIETY OF EQUIPMENT BOTH TO THE NON-IRISH FIRMS ACTUALLY INVOLVED IN THE EXPLORATION PROCESS AND TO THE IRISH COMPANIES SEEKING TO SERVICE THEM.

6. THE GOI FACES SOME MAJOR QUESTION MARKS BESIDES THE LARGE ONE OF WHETHER OR NOT CURRENT EXPLORATION WILL BE SUCCESSFUL. ONE CONCERNS THE QUESTION OF THE BOUNDARIES OF IRELAND'S JURISDICTION FOR EXPLORATION PURPOSES, AS THE DEMARCATION BETWEEN IRELAND AND THE UK CONTINUES TO BE IN DISPUTE. A SECOND IS THE POSSIBLE CONSTRUCTION OF A NEW REFINERY. IRELAND'S SOLE EXISTING REFINERY PROVIDES 40 PERCENT OF IRELAND'S REQUIREMENTS, AND THE GOI WANTS AT THE VERY LEAST TO MAINTAIN THE OPTION TO HAVE A SECOND ONE TO PROVIDE SELF SUFFICIENCY, PARTICULARLY IF A MAJOR STRIKE SHOULD BE MADE. THIS ASPIRATION CONFLICTS WITH ATTEMPTS TO RATIONALIZE REFINERY CAPACITY WITHIN THE EC AS A WHOLE. A THIRD MAJOR CONSIDERATION PERTAINS TO THE FORMATION OF A NATIONAL PETROLEUM COMPANY. THIS LAST ISSUE IS NOT A PARTICULARLY LIVE ONE AT THE MOMENT, BUT SOME THOUGHT IS BEING GIVEN TO POSSIBLE ADVANTAGES OF HAVING A SEMI-STATE BODY OVERSEE THE PROCESSING AND DISTRIBUTION OF OIL PRODUCTS, AND PERHAPS AT A LATER STAGE EVEN TO PLAY SOME ROLE IN EXPLORATION. RENDAHL

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